

Arbor  
Capital  
Resources  
Inc.

*file*

annual  
report  
1979



# Directors' report to shareholders

## FINANCIAL SUMMARY

### EARNINGS

For the fiscal year 1979, Arbor's net earnings before extraordinary items were \$797,242 (38 cents per share) compared with \$469,419 (23 cents per share) for the preceding year. There were no extraordinary items in 1979.

The growth in earnings is somewhat larger than was predicted at the beginning of the year due mainly to these factors:

- Growth in sales at rates higher than had been predicted for our two newest properties - Hatley Memorial Gardens and Halton Hills Memorial Gardens - and from the two most recent additions to our product line - crypts and cremation.
- Improved operating margins because incremental sales were accommodated without corresponding increases in all categories of maintenance and administrative costs.

The trend in earnings is encouraging but it should be recognized that rates of increase from past levels provide no basis for assessing Arbor's performance. The adequacy of earnings cannot be discussed without considering the resources which have been committed to generate them. One meaningful index for this purpose is the ratio of earnings to total assets employed - which should for this purpose be defined as including assets of care funds. Using this criterion, your company's earnings for 1979 amounted to only 1.68% of all assets employed.

It follows that a central goal for management is the continued improvement of return on total resources.

### FINANCIAL POSITION

In terms of financial resources, the results of the year's activities were close to those budgeted except that capital expenditures for additional cemetery land and for new crematoria were less than had been projected at the beginning of the year. These reductions reflect unexpected delays in contract negotiations and in obtaining approvals from regulatory bodies.

### DIVIDENDS

After considering management's latest forecasts of cash flow, your directors concluded that it would be appropriate to implement a dividend program. Accordingly, at a meeting of the board on January 28, 1980, it was resolved that an initial annual dividend at the rate of 5 cents per share and an additional special dividend of 5 cents per share be paid on February 12, 1980.

## LEADING EVENTS

### NEW PROPERTIES

During the year negotiations continued with a view to acquiring existing cemeteries or additional lands for cemetery use in British Columbia, Alberta, Ontario and Nova Scotia. It is hoped that two or three of these proposed acquisitions can be completed during 1980.

### CREMATORIA

Arbor's subsidiaries are now operating a total of seven crematoria and construction of the eighth, at



Chapel Lawn Memorial Gardens in Winnipeg, is almost complete. During the next few years we hope to build additional units in British Columbia, Alberta, Ontario and Quebec.

## OUTLOOK

Over the years our reports to shareholders have touched on the archaic regulatory arrangements which govern cemetery operations in some provinces. These arrangements reflect the economic conditions and the attitudes of simpler times and they become ever less relevant to furthering, what we assume should be, the public interest in having available efficient and economically self-sufficient cemeteries.

The aspect of the present position which causes us most concern is the absence of clear policies to guide administrative discretion in ruling on our proposals to revise selling prices. (It should be noted that the majority of our prices require approval by provincial authorities.) Lack of policy tends to foster the assumption that the prices of cemetery products should be maintained at artificially low levels and without serious regard to the impact of inflation on current costs and, of even greater significance, on the costs of putting in place land and facilities to meet future community needs.

Our concerns become greater as we consider investing substantial sums in additional cemetery lands which must be acquired if our operations are to continue. The justification for these investments

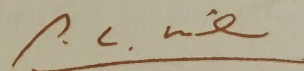
has become more difficult in recent years as the costs of buying, holding and developing land escalate swiftly. In the absence of a clear articulation by regulatory authorities of their long term goals and policies, the justification for such investments will become impossible.

The implications of this issue must have a major, even dominant, influence on the future decisions of Arbor and other cemetery owners.

## ACKNOWLEDGEMENTS

Your directors record their congratulations and thanks to all those who contributed to Arbor's satisfactory progress in 1979.

On behalf of the Board



Philip L. Wilson,  
*President*

Toronto, Ontario  
January 30, 1980

# Consolidated statement of earnings and retained earnings

	Year ended October 31	
	1979	1978
SALES	\$14,883,650	\$12,502,703
INVESTMENT INCOME		
Pre-need funds	991,317	917,248
Care funds (note 7)	1,103,558	925,584
	16,978,525	14,345,535
OPERATING COSTS AND OTHER EXPENSES	15,442,021	13,492,254
	1,536,504	853,281
NET (LOSS) GAIN ON INVESTMENTS	(4,362)	64,638
	1,532,142	917,919
PROVISION FOR INCOME TAXES		
Current	10,800	7,500
Deferred	724,100	441,000
	734,900	448,500
NET EARNINGS FOR THE YEAR BEFORE EXTRAORDINARY ITEM	797,242	469,419
EXTRAORDINARY ITEM		
Reduction of deferred income taxes on application of prior years' losses	—	1,351,000
NET EARNINGS FOR THE YEAR	\$ 797,242	\$ 1,820,419
RETAINED EARNINGS — BEGINNING OF YEAR	\$ 4,807,020	\$ 3,464,515
Excess of the cost of the shares cancelled over their stated value	—	(477,914)
RETAINED EARNINGS — END OF YEAR	\$ 5,604,262	\$ 4,807,020
EARNINGS PER SHARE		
Net earnings before extraordinary item	\$ 0.38	\$ 0.23
Net earnings	\$ 0.38	\$ 0.89



# Consolidated statement of changes in financial position

	Year ended October 31	
	1979	1978
SOURCE OF CASH		
Net earnings for the year before extraordinary item	\$ 797,242	\$ 469,419
Items not affecting funds		
Depreciation and amortization	359,612	280,734
Increase in provision for future delivery	1,997,505	1,932,200
Deferred income taxes	724,100	441,000
Cost of cemetery lots sold	172,215	146,906
Provided from operations	4,050,674	3,270,259
Increase in care funds	89,867	142,934
Increase in bank indebtedness	778,819	506,889
Increase in accounts payable and accrued liabilities	—	1,785,883
Increase in deferred revenue	200,432	248,710
Increase in long-term debt	326,641	278,069
Proceeds on disposal of fixed assets	24,945	34,004
	5,471,378	6,266,748
USE OF CASH		
Increase in instalment accounts receivable	1,795,827	1,612,155
Increase in inventory of crypts and merchandise	327,507	1,742,214
Additions to cemetery land	446,874	795,222
Purchase of fixed assets	1,010,491	636,119
Increase in pre-need funds and allocated merchandise	1,165,176	1,415,742
Decrease in accounts payable and accrued liabilities	487,723	—
Purchase of shares	—	11,928
Other	104,072	14,501
	5,337,670	6,227,881
INCREASE IN CASH	133,708	38,867
CASH — BEGINNING OF YEAR	43,581	4,714
CASH — END OF YEAR	\$ 177,289	\$ 43,581

On behalf of the Board

Director

Director



	As at October 31	
	1979	1978
<b>LIABILITIES</b>		
Bank indebtedness (note 6)	\$ 1,671,208	\$ 892,389
Accounts payable and accrued liabilities	2,319,514	2,807,237
Care funds (note 7)	1,342,774	1,252,907
Provision for future delivery (note 8)	18,890,510	16,893,005
Deferred revenue	1,670,348	1,469,916
Long-term debt (note 9)	2,077,756	1,751,115
Deferred income taxes	3,635,335	2,911,235
	31,607,445	27,977,804
<b>SHAREHOLDERS' EQUITY</b>		
Share capital		
Authorized: 9,945,500 shares without par value		
Issued and fully paid: 2,109,397 shares without par value	708,784	708,784
Retained earnings	5,604,262	4,807,020
	6,313,046	5,515,804
	\$37,920,491	\$33,493,608

## Auditors' report to the shareholders

We have examined the consolidated balance sheet of Arbor Capital Resources Inc. as at October 31, 1979 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at October 31, 1979 and the results of its operations and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario  
January 28, 1980

*Coopers & Lybrand*  
Chartered Accountants

# Notes to consolidated financial statements

FOR THE YEAR ENDED OCTOBER 31, 1979

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *Principles of consolidation*

The consolidated financial statements include the accounts of the company and all of its subsidiaries.

### *Valuation of assets*

#### Instalment accounts receivable

Instalment accounts receivable which are collectible over periods averaging five years are recorded at cost less an allowance for doubtful accounts.

#### Inventory of crypts and merchandise

Inventory of crypts and merchandise is valued at the lower of cost and net realizable value.

#### Cemetery land

Cemetery land is recorded at cost which includes development costs less accumulated amounts written off to cost of sales.

#### Pre-Need Funds and Allocated Merchandise

Pre-need funds and allocated merchandise represent funds and merchandise set aside with trustees and suppliers to meet statutory or contractual obligations of pre-need and storage sales. These assets are recorded at cost, less a provision for losses in respect of individual investments where a decline in market value below cost has occurred and appears to be permanent.

#### Fixed Assets

Fixed assets are recorded at cost and are depreciated using the declining balance method at rates of 5% or 10% for buildings, 20% for equipment and furniture and 30% for automotive equipment. Leasehold improvements are amortized over the term of the applicable leases.

### *Provision for Future Delivery of Merchandise and Services*

The provision for future delivery of merchandise and services under pre-need sales agreements is recorded in the accounts at the estimated future cost of such merchandise and services at the time of delivery, discounted at an appropriate interest rate. With respect to these contracts the average period from the balance sheet date to time of delivery is approximately seventeen years. This provision is based upon a calculation made by a firm of consulting actuaries.

The provision for future delivery of merchandise under storage contracts is recorded at estimated cost at the date of the sales agreement. The merchandise is purchased on average three years from the date of the sales agreement and stored until delivery.

### *Recognition of Revenue*

#### Sales

Income from sales on an account or instalment receivable basis is recorded at the date of the sales agreement.

#### Deferred Revenue

Service charges on the uncollected balance of instalment accounts receivable are collectible over the term of the sales agreement and are taken into revenue by using the sum-of-the-digits method.

## 2. ACCOUNTS RECEIVABLE

Accounts receivable include a demand loan to a director in the amount of \$60,000 bearing interest at above current bank rates.



## Notes

## 3. INVENTORY OF CRYPTS AND MERCHANDISE

	1979	1978
Crypts	\$ 2,135,177	\$ 1,930,938
Merchandise	414,047	290,779
	<u>\$ 2,549,224</u>	<u>\$ 2,221,717</u>

## 4. PRE-NEED FUNDS AND ALLOCATED MERCHANDISE

	1979	1978
Cash and short-term deposits	\$ 1,340,877	\$ 762,196
Bonds (quoted market value \$7,333,963; 1978 - \$7,861,468)	8,216,851	7,930,726
Stocks (quoted market value \$509,738; 1978 - \$211,114)	637,670	327,614
Mortgages	1,744,898	2,344,504
Allocated merchandise in storage	1,318,840	751,920
Total funds and allocated merchandise set aside - at cost	13,259,136	12,116,960
Provision for losses on funds	(84,000)	(107,000)
Total pre-need funds and allocated merchandise	<u>\$13,175,136</u>	<u>\$12,009,960</u>

Pre-need funds become available to the company when merchandise and services have been delivered.

## 5. FIXED ASSETS

	Cost	Accumulated Depreciation & Amortization	Net book value	
			1979	1978
Buildings	\$1,827,273	\$ 554,177	\$1,273,096	\$ 759,731
Equipment & furniture	1,616,823	1,041,493	575,330	456,746
Automotive equipment	973,239	786,038	187,201	177,029
Leasehold improvements	173,280	120,275	53,005	69,192
	<u>\$4,590,615</u>	<u>\$2,501,983</u>	<u>\$2,088,632</u>	<u>\$1,462,698</u>

## 6. BANK INDEBTEDNESS

Accounts receivable and instalment accounts receivable less amounts due to trust funds have been pledged as security for bank indebtedness.

## 7. CARE FUNDS

The amount of \$1,342,774 (1978 - \$1,252,907) represents the portion of instalment accounts receivable which will become payable into trust upon collection of the receivable.

As at October 31, 1979 amounts collected and set aside with trustees total \$12,284,755 (1978 - \$11,046,651).

The company has the right to the income from these trust funds (1979 - \$1,103,558, 1978 - \$925,584) for the care and maintenance of cemetery properties but the assets of the funds are not assets of the company.

## 8. PROVISION FOR FUTURE DELIVERY

The provision for future delivery consists of the following:

	1979	1978
Merchandise and services sold on a pre-need basis	\$14,980,890	\$14,087,011
Merchandise sold on a storage basis:		
- to be purchased and stored in future	2,590,780	2,054,074
- purchased and stored until delivery	1,318,840	751,920
	<u>\$18,890,510</u>	<u>\$16,893,005</u>

## Notes

## 9. LONG-TERM DEBT

	1979	1978
10 $\frac{1}{2}$ % mortgage payable in quarterly instalments of \$1,000 to April 28, 1982 and the balance of \$303,125 on July 28, 1982	\$ 313,125	\$ 367,125
11 $\frac{1}{4}$ % mortgage payable in monthly instalments (principal and interest) of \$1,960 from November 1, 1978 to October 1, 1983 and the balance of \$189,681 due on that date	198,384	200,000
11 $\frac{1}{4}$ % mortgage payable in monthly instalments (principal and interest) of \$3,765 to August 18, 1983 and \$360,099 on July 31, 1984	380,980	484,692
10% mortgage payable in semi-annual instalments of \$43,618 from December 1, 1982 to June 1, 1987 and \$27,500 on December 1, 1987	463,678	463,678
Other long term debt bearing interest at an average rate of approximately 7% secured by various assets of the company	721,589	235,620
	<u>\$ 2,077,756</u>	<u>\$ 1,751,115</u>

Amounts payable over the next five years are as follows:

1980	\$141,700
1981	\$ 53,780
1982	\$353,633
1983	\$379,207
1984	\$589,025

Interest on long-term debt included in operating costs and other expenses amounted to \$156,477 (1978 - \$187,437).

## 10. SHARE OPTIONS

Options previously granted to certain officers to purchase 140,000 shares at \$1 per share were not exercised prior to their expiry on December 31, 1979.

## 11. COMPARATIVE FIGURES

Certain of the 1978 comparative figures have been reclassified to conform with the 1979 presentation.

## 12. SUBSEQUENT EVENT

On January 28, 1980, the company declared an initial annual dividend of 5 cents per share and a special dividend of 5 cents per share to be paid on February 12, 1980, to shareholders of record on February 5, 1980.



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**DIRECTORS**

D. G. C. Menzel, Q.C.\*; *Partner of Campbell, Godfrey & Lewtas, Toronto*  
John W. Sabine; *Partner of Campbell, Godfrey & Lewtas, Toronto*  
Daniel J. Scanlan; *Chairman of Arbor Capital Resources Inc., Toronto*  
Lord Shaughnessy\*; *Vice-President and Secretary of Canada Northwest Land Limited and a Trustee of The Last Post Fund Inc., Calgary*  
Jean Sirois; *Partner of Rivard, Hickson, Sirois & Lemieux, Québec City*  
Philip L. Wilson\*; *President and Chief Executive Officer of Arbor Capital Resources Inc., Toronto*  
\*Member, Audit Committee

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**OFFICERS AND  
SENIOR MANAGEMENT**

Daniel J. Scanlan, *Chairman*  
Philip L. Wilson, *President*  
Bernard E. Francisco, *Vice-President, Finance*  
John W. Sabine, *Secretary*  
Donald R. Belyea, *Director of Lands Management*  
W. Keith Forbes, *Manager of Purchasing*  
Joseph E. Johnson, *Director of Operations*  
Patrick Monkman, *Manager of Properties*  
John V. Palmer, *Director of Marketing*

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**HEAD OFFICE**

37 Front Street East, Toronto, Ontario M5E 1N6

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**AUDITORS**

Coopers & Lybrand

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**TRANSFER AGENT  
AND REGISTRAR**

Crown Trust Company

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**ANNUAL MEETING**

The annual and general meeting of shareholders will be held on Friday, March 7, 1980 in the Ridout Room, The Board of Trade of Metropolitan Toronto, 3 First Canadian Place, Toronto, Ontario at 10:00 a.m. Toronto time.

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